

Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY BRUSSELS

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TAGS: EFIN, BE

SUBJECT: BELGIAN BANKING COMMISSION REQUEST FOR INFORMATION ON U.S. BANK DISCLOSURES

REF: BRUSSELS 1178

1. IN RESPONSE TO INQUIRY OF BELIGUM BANKING COMMISSION, EMBASSY SHOULD CONVEY FOLLOWING MESSAGE FROM JAMES E. SMITH, U.S. COMPTROLLER OF THE CURRENCY: "YOU MAY BE ASSURED THAT THE OFFICE OF THE COMPTROLLER OF THE CURRENCY CONSIDERS THAT ALL NATIONAL BANKS WHICH HAVE BRANCHES OPERATING IN BELGIUM ARE SOUND AND PROSPEROUS AND ARE IN UNCLASSIFIED

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NO MANNER CONSIDERED TO BE A PROBLEM." YOU MAY ALSO WISH TO CONVEY FOLLOWING STATEMENTS BY MR. SMITH, EXCERPTED FROM HIS FEBRUARY 5 TESTIMONY BEFORE THE SENATE COMMITTEE

ON BANKING, HOUSING AND URBAN AFFAIRS:

2. QUOTE. THE UNITED STATES IS NOW EMERGING FROM THE SEVEREST ECONOMIC RECESSION SINCE THE GREAT DEPRESSION OF THE 1930'S. NOT SURPRISINGLY, THESE SERIOUS ECONOMIC CONDITIONS WEAKENED MANY OF THE BUSINESSES UPON WHICH OUR ECONOMY DEPENDS. IN VIEW OF THIS FACT, IT WOULD BE UN-REALISTIC TO EXPECT THAT THESE MAJOR ECONOMIC PROBLEMS WOULD NOT AFFECT THE NATION'S BANKS, ESPECIALLY THOSE LARGER INSTITUTIONS WHICH ARE THE PRINCIPAL CREDIT SOURCES FOR REGIONAL AND NATIONAL BUSINESSES."

"DESPITE THESE ECONOMIC PROBLEMS, THE NATIONAL BANKING SYSTEM, WHICH IS SUPERVISED BY THE OFFICE OF THE COMPTROL-LER OF THE CURRENCY, IS SOUND AND PROSPEROUS. INDICATIVE OF THIS STRENGTH IS THE REMARKABLY RESILIENT PERFORMANCE OF THE TEN LARGEST NATIONAL BANKS IN 1975."...

"THESE TEN NATIONAL BANKS HOLD ABOUT 40 PERCENT OF THE ASSETS AND DEPOSITS OF ALL NATIONAL BANKS."...

"OUTSTANDING LOANS FOR THESE TEN BANKING COMPANIES TOTAL-ED \$152 BILLION AT YEAR-END 1975. TOTAL NET LOAN LOSSES OF THESE BANKING COMPANIES FOR ALL 1975 EQUALED \$1.1 BIL-LION -- OR 0.7 PER CENT OF OUTSTANDING LOANS. ALTHOUGH THESE LOSSES WERE ABOVE THE HISTORIC ANNUAL FIGURES SINCE WORLD WAR II, LET US ASK:

--DID THEY SEVERELY IMPAIR THE BANKS' CAPITAL? NO, IN-FACT, CAPITAL ACCOUNTS OF THESE TEN BANKING COMPANIES GREW \$1.4 BILLION IN 1975.

--DID THEY EXHAUST LOAN LOSS RESERVES? NO. LOAN LOSS RESERVES OF THESE BANKING COMPANIES WERE STRENGTHENED IN 1975 BY SOME \$206 MILLION.

--HOW WERE THESE LOSSES ABSORBED? ENTIRELY OUT OF CUR-RENT EARNINGS. UNQUOTE
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3. COMPTROLLER SMITH HAS STATED THAT CRITICIZED ASSETS WITHIN THE NATIONAL BANKING SYSTEM HAVE INCREASED OVER HISTORICAL LEVELS. "CRITICIZED ASSETS" INCLUDE ALL LOANS PLACED IN THE CATEGORIES OF LOSS, DOUBTFUL, SUBSTANDARD AND OTHER LOANS ESPECIALLY MENTIONED. THE CATEGORY "LOSS" ACCOUNTS FOR ONLY 5 OF THE TOTAL LOANS CRITICIZED. THE REMAINING 95 OF CRITICIZED LOANS ARE IN THE LESS SERIOUS CATEGORIES. IT MUST BE NOTED THAT THE COMPTROLLER'S SYSTEM OF CLASSIFICATION EMPHASIZES RECOGNITION OF POTEN-

TIAL PROBLEMS WHEREAS EUROPEAN RECOGNITION OF "DOUBTFUL" OR "IN LIQUIDATION" DENOTE ACTUAL DOUBTFUL OR LOSS SITUATIONS."

4. MR. SMITH CONCLUDES THAT HE IS CONFIDENT IN THE U.S. BANKING SYSTEM BASED ON ITS PRESENT CONDITION AND PAST PERFORMANCE. HE FEELS THAT "...THE MAIN ASSET PROBLEMS ARE ECONOMY RELATED, AND THE CAPACITY OF OUR BANKING SYSTEM TO SHOULDER THOSE PROBLEM LOANS IS A MATTER DESERVING OF COMMENDATION NOT CONDEMNATION."

5. FULL TEXT OF MR. SMITH'S STATEMENT WAS AIRPOUCHED TO EMBASSY ON FEBRUARY 26 FOR TRANSMITTAL TO BELGIUM BANKING COMMISSION. KISSINGER

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